



## The Market Approach to Industrialization

### *A Critique of China's Experiment*

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# **The Market Approach to Industrialization: A Critique of China's Experiment**

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# The Market Approach to Industrialization: A Critique of China's Experiment<sup>1</sup>

Li Xing<sup>2</sup>

## Introduction

Industrialization (modernization<sup>1</sup>) has become a world process ever since the Industrial Revolution began in England. It embodies not only technological advances but also the social reorganization that have transformed both the mode of production and the ways of life of people. The Revolution was the product of complex process of changes dating back over centuries which made some parts of Europe into the benchmark of the dramatic historical transformation. Since then, all other countries have been more or less involved in a process to "industrialize," to "catch up" or to "modernize" regardless of cultural and social differences.

The 20th century has seen three major types of industrialization models based upon the rise of the states and their development: so-called *democratic capitalism*, *authoritarian capitalism* and *authoritarian socialism*. These systems were geographically segmented throughout the world - democratic capitalism in Western Europe and North America,<sup>2</sup> authoritarian capitalism in East Asia<sup>3</sup> (excluding China) and mainly in the Third World; authoritarian socialism in Eastern Europe and China including a few developing countries.

Democratic capitalism has existed and further developed since the beginning of the 1900s. It emerged as a dominant political-economic system in many parts of the world in the late 20th century passing through several crises and

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interruption due to the Great Depression in the 1930s and fascism in the Second World War. Democratic capitalism is characterized by the fact that the means of production are privately owned and economic activities are mediated by the market with the price mechanism operating to maintain the transaction of goods and services. As mentioned, industrialization started with a take-off in the mode of production based on a technological revolution, export of commodities, exploration of overseas market and resources, colonialization are the major steps in consolidating its economic profit-making structure. Although international geo-politics and economics have undergone fundamental transformations, the basic ideology of the system and its faith in "free market" and "free trade" still remain.

Authoritarian capitalism is a different type of political-economic system than democratic capitalism, although they both share a basic similarity in terms of private ownership of the means of production and market mechanism. However, the political power is monopolized by certain social groups such as the military or political parties or by individual "strong man." Its most remarkable characteristic is that the state has played a role in the industrialization process, such as in resource allocation, in trade protectionism, in macro-level planning, etc. These features share similarities with the socialist development strategy.

Authoritarian socialism (or state socialism) is a fundamentally different kind of political-economic system from that of the above two. The socialist system is distinctive in with regard to the question of ownership of the means of production, while under capitalism property is private ownership under socialism has been public. Large-scale industrial enterprises belong to the state sector, small-scale businesses may be allowed to exist along with cooperative principle. The state controls the allocation of natural resources and owns major

economic branches and occupies a leading position implementing macro regulation and control of the national economy.

At this point, it is important to emphasize that the conceptualization of these industrialization models needs to include an understanding of the different geographical, social, cultural and geopolitical settings in which these industrialization processes took place.

Since this century, China, Russia and other ex-socialist countries have been struggling to achieve modernization (industrialization). The search to ensure their existence as prosperous strong nations and political entities has been a key concern in their modern history. Their earlier modernization “attempts” suffered a series of setbacks from the challenges and the pressures from internal and external forces. Seeking the transformation and revival of their nations, first Russia then China eventually found elements of an answer in Marxist teachings and revolutionary theories. Depending on how one assesses their successes and failures, both Russia and China were remembered as historically unique experiments to skip over the stage of capitalism and to bring about a socialist transformation in terms of both social structures and consciousness of the people.

At the end of 1980s when the whole socialist bloc collapsed, most socialist states gave up their societal regimes through what they called the “second revolution,”<sup>4</sup> i.e. embarking on market reform. The breakdown of socialism was said to have brought an end to the controversial debate between socialism and capitalism. To the critics of socialism, its collapse was bound to come: the Soviet-style command economy was unable to compete with the dynamic market-based economies of the West. The grave defect of socialism in their

view has been its hostility to the market imposing central planning to market mechanism. And if the market is the solution to socialism, then it must be pursued consistently and people have to accept not only markets for consumer good but also capital market, unemployment and economic crises (for opposite view, see McNally 1993 and Ollman 1998). Some maintain that capitalism and liberal democracy are perhaps the highest stage of development, i.e. the "end of history" (Fukuyama, 1992);<sup>5</sup> this discourse also implies that not only the communist/socialist vision to build a non-capitalist order is illusory but also that the strategy of state-led development prevalent in the developing world was leading to an impasse.

Since then, the market has gained new importance in the development debate because the triumph of capitalism is presented as the victory of the market. Most developing countries, especially the former socialist states, are being swept up by the forces of the ideological power, and they have been under pressure to integrate their industrialization with the world market. In China, slogans like "linking the track with the world market," "science and technology are the first productive forces," and "globalization is irresistible" are becoming not just catchy words on the lips of new neoliberal elites but also represent a dramatic change of political convictions and development discourses as well as social structures.

In this sense, the new development strategy - modernization via the market - implies not only mass production of goods and services, but also a process in which the creation of an ideologically docile population and corresponding institutions is indispensable. In return, it logically presupposes a revolutionary transformation in ideology, philosophy, cultural traditions, psychological attitude as well as way of life. In order to let the market ideology become the

new accepted worldview a radical change of values is a precondition. Those very elements that possibly cause suffering and dislocation are turned into the inevitable prerequisite for creating a modern, rational, and industrial society.

This contribution aims to problematize the new strategy “modernization-through-market” which is being taken for granted in China and other former socialist states. In the first part of this paper, a combined historical-cultural-political approach is used to study the concepts and inherent *logic* of the market. The market is argued to be anything but a value-free concept and institution. It has roots shaped by particular cultural and religious norms and values that in return promote particular forms of human interactions and social relations. The outcome of market interactions has always been the empowerment and inclusion of some while the marginalization and exclusion of others creating political and social contradictions. More importantly, the market approach hides the exploitation and alienation factors within production relations and confines the understanding of social relations within the framework of market interactions.

The second part is a reflection of the first part based on an analytical case study of China’s experiences aiming to problematize the market strategy to modernization and to analyze the contradictions such an approach has generated. The market approach has so far produced far-reaching institutional changes and societal transformations at all societal levels: the leadership of the Chinese Communist Party (CCP), the socio-ideological consciousness, the structure of ownership and class relations, etc. Consequently, the marketization process is challenging the concept of nation-state as the unit of political legitimacy, collective identity as well as economic<sup>4</sup> interactions. Internally it destabilizes the social foundation of coherence of China’s economic, political

and cultural activities while at the level of external relations, China's political and economic relations with both the North and the South is being significantly transformed.

The objective of this article is to scrutinize the market approach to modernization (market socialism) in China with a view to cast a doubt whether the strategy can sustain the grand modernization program without serious damaging effect to the integration of the nation and the welfare of the people and to question whether the existence of socialism itself is an alternative to capitalism.

### **Understanding the market**

#### *The market<sup>6</sup>*

Philosophically and ideologically, the capitalist economic order is based on a set of assumptions that: 1) the economy is and should be the dominant institution in modern society; 2) sustained economic growth is necessary to provide jobs and resources to clean up the environment; 3) steady increase in productivity is necessary for continued gains in standards of living; 4) technological advance and competition are essential for progress; and 5) free, unregulated markets generally result in the most efficient and socially optimal allocation of resources. All in all, it theorized that "all human behaviour can be viewed as involving participants who maximize their utility from stable sets of preferences and accumulate an optimal amount of information and other inputs in a variety of markets." (Becker 1976: 8) This hypothesis considered is to be applicable to all human behavior regardless of differences in cultural backgrounds.

In essence, the capitalist economic order can be conceptualized to be a mode of

production where capital accumulation and the profit motivation dominate to such an extent that, according to Robert Heilbroner:

physical capital loses its meaning as an object of use-value to gain a new meaning as a link in a chain of transactions, the purpose of which is the enlargement of exchange-value (itself a term that connotes a specific, although not exclusively capitalist, social setting). This circuit of M-C-M' (where  $M' > M$ ) is the self-replicating genetic unit of capitalism.

(1995: 23)

This M-C-M' formula is the basic process of capital and wealth accumulation through networks of exchanges. It is the essence and logic of capitalism. One of the key capitalist networks of exchange is as what we all know - the *market*.

The market is the central category and the hollow core of capitalist economics. Blaug claims that, "The history of economic thought ... is nothing but the history of our efforts to understand the workings of an economy based on market transactions." (1985: 6) However, the market is concerned exclusively with capitalism both as a mechanism of exchange and allocation and as a regulator of human and social relations. It is not the outcome of a neutral and value-free genesis. Rather, it has cultural roots, and is embedded with peculiar political power relations.

In his article *Market, in their place*, James Rule gives a description of what the market has become, "When historians of ideas go to work on the last decade of the twentieth century, the market will surely appear as one of our intellectual totems. What the Rights of Man were to the French Revolution – or what Manifest Destiny or the quest for the Kingdom of God on Earth were to their times – the market is to our own." (1998: 29)

When all operations of the market are seen as value-free, it is implicitly suggested that the market cannot be judged against values. The free market, as

the Central American Jesuit theologian and philosopher Franz Hinkelammert has interpreted, is to “judge over life and death but cannot itself be judged in terms of the effect it has on the life and death of every individual.” (quoted in George and Sabelli 1994: 96) Accordingly, the market has theologically been raised to a status of natural law. In the words of a Protestant thinker, “The laws of the market ... come to be seen as transcendent, [undergoing] a process of sociological sacralization. Not only are they given a higher status, they actually become untouchable, like the laws of nature.” (quoted in *ibid.* 1994: 96-97) In this way, the market as a “invisible hand” is like God’s hand having the final truth of all interactions and phenomena in the world.

### *The market as a cultural institution*

There is little dispute that market exchanges are not free of any political, cultural and socio-organizational constraints. Otherwise, the free market as an abstract concept could only make sense if a transaction took place between many actors who are unaffected by any kind of established social, political and cultural relations. Present-day neoliberalism regards the market as being separate from and autonomous of social, political and cultural specificities. It is even seen as “the dominant form of social behaviour or the dominant structuring force in social life.” (Mingione 1991: 5)

In reality, what the market does is not merely limited to its economic function in allocating resources and distributing income. To a large extent, it shapes certain forms of culture, cultivates or impedes forms of human interactions and social relations as well as supports a defined structure of power. The markets are “as much political and cultural institutions as they are economic” and our understanding “must be expanded to include the effects of markets on both the structure of power and the process of human development.” (Bowles 1991: 11)



To say the market is a cultural institution is to suggest that the way people interact in the market exchange process, i.e. regulating and coordinating their economic behaviours, shapes the kind of people they become. This is because,

The economy - its markets, workplaces and other sites - is a gigantic school. Its rewards encourage the development of particular skills and attitudes while other potentials lay fallow or atrophy. We learn to function in these environments, and in so doing become someone we might not have become in a different setting. ... what the text book market does is limited to allocation or distribution because the parties to the exchange - their culture, preference, values - are exogenously determined and not influenced by the exchange process itself.

(Bowles *ibid.*: 13)

Thus, it can be argued that the zealous pursuit of economic rewards through the market is a product of the cultural capital which determines not only economic and technological progress but also ideological attitude.

According to Wilk's studies on the relationship between economy and culture (see Acheson 1997: 233-234), all economic anthropology is based on one of three assumptions about human nature. The first one regards humans as being motivated by self-interest, which is the basis of neoclassical economics. Based on this assumption, human identity is strongly associated with the market where autonomous profit-seeking individuals interact with one another rather than concern with ties of kinship or community. The second sees humans as social beings whose behaviours are molded in association with groups. Several approaches of political economy including Marxism are related to this. The third believes that humans are moral beings whose worldview is shaped by a set of values. This is what Wilk identifies as "cultural economics."

Max Weber was highly prominent in relation to the last one. In the second chapter of his *Economy and Society* (1921) he analyses the main characteristics



of economic rationality in a capitalist society, and contrasts it with economic orientations in other forms of society. These characteristics are: the market exchange, where transactions are determined only by the pursuit of interests; the generalized use of money as means for rational capital accounting; the rational management of labour in production and strict factory discipline; a rational technology; a clear separation of the enterprise from the household. Moreover, these economic features are assisted by extra-economic public goods, such as the functioning of government administration and the legal system, which guarantee the reliability of all contracts through the market. These specific features of modern capitalism in contrast to other socio-economic formations made Weber conclude that

It is only in the Western world that rational capitalist enterprises with permanent capital, free labour, rational specialization and combination of labour, and the market allocation of productive functions on the basis of profit-making capitalist enterprises, are to be found.

(1921: 31)

It is said that Weber's more comprehensive and coherent theory of modern capitalism is found in his *General Economic History* (1923) where capitalism is described as being present "whenever the industrial provision for the needs of a human group is carried out by the method of enterprise, irrespective of what need is involved." (1923: 207) The basic conditions of capitalism as a unique mode of production is specified by Weber:

The most general presupposition for the existence of this present-day capitalism is that of rational capital accounting as the norm for all large industrial undertakings .... Such accounting involves, again, first, the appropriation of all physical means of production – land, apparatus, machinery, tools, etc. – as disposable property of autonomous private industrial enterprises .... In the second place, it involves freedom of the market, that is, the absence of irrational limitations on trading in the market .... Third, capitalistic accounting presupposes rational technology, that is, one reduced to calculation to the largest possible degree, which implies mechanization .... The fourth characteristic is that of calculable

law .... The fifth feature is free labour. Persons must be present who are not only legally in the position, but are also economically compelled, to sell their labour on the market without restriction .... the sixth and final condition is the commercialization of economic life. By this we mean the general use of commercial instruments to represent share rights in enterprise, and also in property ownership.

(1923: 208-209)

The above conditions are regarded as prerequisites for the emergence of modern capitalism. Unlike Marx, who sees capitalism as a law-governed stage in the development of human history, Weber's conceptualization of capitalism is closely related to the "uniqueness" of modern Western societies. This uniqueness is clearly explained in his *The Protestant Ethic and the Spirit of Capitalism*, in which he analyzed the influence of Lutheranism and Calvinism on the development of capitalism and argued that a causal connection existed between the spiritual and the temporal. His concern was the effect of religion on economic life. Scholars, including Weber, have used culture as an explanation for the reason Occidental (Western) societies were able to achieve industrialization earlier than the rest of the world, whereas, Oriental (Asian) societies, because traditional religions and social structures, were inimical to the development of capitalism. The implication is that modernization is preconditioned by cultural capital and ideological attitudes which have to be receptive to capitalism.

In connection with this culturalist interpretation, Alexis de Tocqueville maintained that the rise of modern capitalism was an outcome of peculiar institutional developments which found their clearest expression in the capitalist economy. As the nuclear core of social and cultural institutions, the historical role of a particular *family* type - individualistic bourgeois family with its social habits and norms - is argued by Berger to be "the only institution sufficiently dynamic to spontaneously engender social processes that made for

both the development of a modern market economy and the rise of civil society during the 18<sup>th</sup> and 19<sup>th</sup> centuries in the northwestern part of Europe.” And it prevails to be “the core features of any social order based on the principles of individual liberty, political democracy, and a market economy.” (1998: 45)

The evolution of the market system as well as the development of capitalism itself can be better conceptualized through examining the dynamics emanating from the family structure because it provides “the rock-bottom foundation for the development of corresponding macro-economic level and political institutions within that society,” and such dynamics is crucial to understand the “cultural potentials for future economic and political development to occur.” (Berger *ibid.*: 44) This cultural background explaining the rise of modern capitalism has been ignored by neoliberalism at the current stage of globalization with the market seen as being universal without regard to cultural distinctions.

The contemporary market economy implies not only an exchange institution for the production of goods and services, but also an updating or upgrading process from tradition to modernization. In this sense, what is necessary to create a modern industrial society has less to do with cultural, social and political factors, but more to do with adjusting to market mechanisms and economic forces. Accordingly, economic development presupposes a revolutionary transformation in ideology, philosophy, cultural traditions, psychological attitude as well as way of life. Those very elements that possibly cause sufferings and dislocations are turned into the inevitable prerequisites for creating a modern, rational, and industrial society.

### *The market as a political institution*

By saying that the market is a political institution means that if we seriously govern our societies on the basis of the market principle, then politically we cannot avoid preferring certain courses of actions, favouring certain social arrangements and promoting certain policies.

Contrary to the neoliberal conceptualization of the market where each individual (or state) is able to act upon his/her own goals, values and objectives without subordination or subjection to any other individual or collective, the market is a political institution that eventually empowers some and marginalizes others. The “free” market rules out the *free* exercise of collectives and other individual initiatives: One is free to do anything as long as he/she goes through the market exchange.

At the current stage of global capitalism, the market is redefining the concept of “national economy” within the framework of the nation-state. The relative decline of state autonomy is a manifestation of the power of capital - the mobility of transnational firms, financial institutions and powerful individual investors to transfer production to countries or regions where state policies may be more preferential to capital. This means that investors anywhere, through the use of global instant communications, can invest their money in anything - stocks, bonds, property, factories, foreign currencies - almost anywhere in the world. Thus, they are in a position to monitor aspects of state spending and influence state policies, such as employment, social welfare, taxation and so on. The threat to move production and investment gives them a strong leverage to win concessions and favourable policies. In other words, the room of maneuver of the state has been reduced by world market forces.

Today, the market defines the limits of state politics and economists exert unprecedented influence in policy-making. States no longer have the capacity to act as buffers between domestic and international economic actors. Rather, they have to adjust domestic policies or priorities to respond to the world economy. Consequently, states become "transmission belts" of global economic forces penetrating local borders and markets (Cox 1993: 260). The domestic political and institutional spheres face an inherent contradiction: On the one hand, states are the custodians of society with the obligations to fulfil the role of providing social welfare and security and protecting national interests; on the other hand, the indisputable mobility of capital reduces their capacity to do so.

For example, the old social movements in the West, such as trade unions and peasant movements have suffered setbacks under the impact of global market competition. The weakening of labour movements is precisely the result of the changing structure of production from a traditional clientele of manual industrial production to a production which is being restructured on a world scale. The structural power of financial and productive capital in the new global order has weakened the power of trade unions and strengthened that of capital.

To developing countries the forced (have no choice) integration into the global market system entails structural differentiation and functional specialization in the way that the national labour forces are propelled to divide into formal contract and temporary workers with members of each group receiving differentiated salaries and welfare benefits. Since adjustment to the world economy requires higher levels of production and technology, the ruling elites of many countries are pushing forward greater vertical linkages to the global market and deepen their internal accumulations through exploitation of surplus labour. It is thus hoped that the external linkage of local economies to the world

market can reinforce their position and promote internal expansion. Rapid industrialization, in this view, must attract foreign investment by providing "favorable" conditions to global capitalist interests and multinational companies and by reducing welfare costs.

Lindblom (1982) contends that business leaders' control of production and investment decisions gives them a "privileged position" in the democratic political system. Economics/business nowadays occupies a pivotal position in politics, and the power relations between capital and labour have become increasingly unbalanced. This is the situation not only in developing countries but also in industrial nations where the threat of disinvestment is enough to hinder citizens and elected government officials from attempting to make reforms unfavourable to business. This evolution cuts across different political coalitions, national bureaucracies and other domestic social institutions to "peg" state to market interests. As Boyer and Drache point out,

In the 1990s, governments on both the right and left approach policy-making as a spectacular casino where everybody is trying to guess the next move of the Bundesbank, the results of the next election in Canada, Germany, the UK or France or the forthcoming statement by President Clinton on interest rates.

(1996: 19)

As a result, the credibility of governments has come to rest on economic performance and relations with the international capital market - a tendency which makes them politically vulnerable to setbacks of the domestic economy and the breakdown of the international financial market. Many state elites realize that the only way to stay in power is to promote economic growth and expansion by all means, including political authoritarianism and harsh labour exploitation. Hence, it can be said that the market is closely connected with political legitimacy and power struggle.



### *The market, competition and competitiveness*

There is little dispute among economists about the logic of the market mechanism where interactions are motivated by competition in profit-making. However, there is a fundamental disagreement about whether competition is based on 'human nature' or represents learned behavior. Neoclassical economists believe responses (competition) to the market mechanism are an inherent part of human nature in search for profits and benefits.

Since the logic of the market mechanism builds on competition. The owners of the means of production and financial capital compete each other in order to get a larger share of the overall profits produced. When competition is driven for profits, it does not necessarily mean that actors in the market like to behave in that way or that they are addicted in an endless process of wealth accumulation. Rather, it is because when competition becomes systematic, "the interaction of class and competitiveness create not just an economic system but a social system: what happens in the kind of economy tends to dominate every aspect of our lives." (Hargrove 1995: 2)

The paradox facing most states is that on the one hand, they are under pressure to cut spending for the sake of competition, on the other hand, they have to provide the necessary ingredients for competitiveness, such as infrastructure, education, job training research and development policies. The classical economic assumptions of comparative advantage, mutual benefit and equilibrium are increasingly outdated because the logic and nature of market competition eventually leads to monopoly and exclusion.

The systematic expansion of capitalism is maintained not only through competition but also through the constant reproduction of new commodities and

through innovations and revolutions in modern technology. Those exceptionally skilled in advanced engineering and computer technologies are supposed to be rewarded with higher levels of income than those less skilled. As Greenspan claims, "So long as material well being holds a high priority in a nation's value system, the persistence of technological advance should foster this process." (Greenspan 1998: 421) As a consequence of severe market competition not only within nation-states but also between them, unemployment has also been globalized with migrating labour in search of "higher-paid" jobs and with capital looking for cheaper supplies of labour. Not only can national labour markets no longer be isolated but workers/farmers across countries are brought into severe competition with one another. Voices in industrial nations blame the abundant supplies of Third World cheap labour including the former socialist countries<sup>7</sup> as the source of falling wages.

Rooted in the process of market competition, the ideology of competitiveness has been taken for granted that people unthinkingly acquiesce to its dictates. It is seen as a natural law, a natural force beyond questioning and resisting. As Rinehart (1995: 14) observes, "Historically, the concept of competitiveness has been used to justify business opposition to unions, reduced hours of work, wage increases, paid vacations, health and safety regulations, antipollution laws, and so on." Nowadays, the banner of competitiveness is used to transform democracy and remove from the agenda of government tasks which are defined as barriers to business competitiveness including income and wealth distribution, business restrictions, laws on taxation and protection of labour union activities.

### *The market mystifications and distortions*

From a Marxist point of view, the political and economic equilibrium within a



capitalist mode of production cannot be sustained due to the inherent contradictions between the excessive profits of the capitalist class and the wage level of the working classes that tend to break the societal equilibrium. However, the capitalist classes in modern and advanced industrial economies realized during the Great Depression and after World War II the necessity to develop a capacity, for the sake of maintaining the economic order and their interest, to reward certain material and political demands of the subordinate classes without giving up the fundamental mode of functioning of capitalism. In other words, they have been able to maintain the fundamental but often *unstable* equilibrium: on the one hand, to earn enough profit for capital accumulation and reproduction, and on the other hand, to realize material well-being for the masses so that these accept the rule of capital.

The market is understood by capitalists as the best means to sustain this unstable equilibrium and maintain what Antonio Gramsci (1971) called *bourgeois hegemony*, i.e. the “rule by consent” rather than the “rule by force.” To rule by consent is to represent the interests of the whole society not only politically, economically but also culturally and ideologically. Ideology cannot be separated from human activities, rather, ideology has a material existence in these activities. To say ideology has a material existence indicates recognition that it is embodied in individual livelihood and in the political/economic institutions and organizations where human activities occur. It is through these experiences as well as their effects that ideology is formed, sustained and expanded. The market offers people an “ideal” place to associate the process of ideology-formation directly with material life, living-standard, welfare, wealth and power.

Since the market occupies such a pivotal place in the current development

discourse and in human being's activities, it is not surprising to see that the market increasingly not only acquires exchange utility but also becomes an instrument embedded with political and socio-cultural implications. In other words, market relations and social relations are implicitly becoming two sides of the same coin. Accordingly, social relations have to be transformed or adjusted in order to be in conformity with the rules and values of the market. But, the market worldview hides a number of mystifications and distortions, i.e. "a kind of broad misunderstanding that results from the combination of hiding things, distorting them, misrepresenting them, confusing them, and occasionally simply lying about them." (Ollman 1998: 85)

First of all, the market ideology diverts attention away from the Marxist theory of the capitalist mode of production based on the conceptualization of exploitation and alienation as components of market capitalism. In doing so, the market ideology hides the unequal production/class relations between workers and capitalists and prevents them from becoming a focus point. The production/class relations have already more or less predetermined the role and position of each individual before she/he enters the exchange process as well as most outcomes. The market approach deliberately separates the production/class relations from the market relations so that the exploitation or *unequal* class relationship (exploitation) in production is hidden while the *equal* relationship (free competition) in the market is exposed. This makes Marx's theory of exploitation and alienation hard to reach people's political awareness.

Second, the market lens distorts the production/class relations and converts them into customer/consumer relations. The market discourse emphasizes the importance of "individualism" and "freedom," i.e. individual choice, freedom of competition, freedom of purchase and sale, and by doing this it singles out and

differentiates people as individual consumers from individuals as members of a specific class. To put it more clearly, the market dogma individualizes the working class into "distinct individuals" or "free consumers" without ties to anyone else. Following this logic, freedom is the exercise of unrestricted choice and equality is the right to exercise this freedom. The market helps to produce and legitimize this illusion, thus dissolving the collective core or common basis without which a class cannot exist. In this sense, every individual member of a class/group no longer acts qua class/group affiliation but as a customer/consumer category. Everyone is supposed to have the freedom and right to participate, as an individual citizen or voter, but not as a member of a class, in election, legislation, government representation as well as political and economic decision-making (Im 1991: 131).

Applying the above mentioned critical perspectives into the studies of development issues at the global level we will find that when developing countries especially the former socialist states are forced to integrate their economies with global capitalism the following measures have to be met: free prices, the removal of subsidies, the opening international trade, freely convertible currencies, privatization of state-owned companies, absorbing foreign investment, closing inefficient enterprises and laying off redundant workers. By doing this they actually enter a trap and become victims of market mystification and distortion. Without a clear comprehension of the production and class relations in the world system, the real factors behind the ever enlarging gap between the developed and underdeveloped worlds and between rich and poor will not become understandable. Therefore, critical analyses must be provided to expose the effect and eventual consequences when the market mechanism becomes the societal regulator especially in those countries that do not have the cultural roots and evolution of capitalism.

### **The market challenges: the case of China**

Since the 1980s, the post-Maoist regime is seemingly determined to building “a socialist market economy with Chinese characteristics.” What has happened since then represents a sharp departure from the past as to national objectives, political agenda, economic development, and more importantly ideological convictions.

We are witnessing a Dengist China - that is returning to the capitalist economic development based on privatization of ownership and control of the means of production and distribution: a) marketizing the allocation of resources, enlarging economic inequities and political privileges, and emphasizing science and technology as the essential productive forces; b) promoting the interest of the privileged, professional and entrepreneurial classes; c) defining China's progress largely in terms of mobility within the hierarchy of the international actors viewing technology, productivity and trade as the key factors in changing China's position in the world economy; and d) extending and deepening external relations with industrial capitalist states and implementing internal and external policies to promote economic interest in the global competition.

However, the dilemma facing the Chinese authorities is related to the fact that change does not result from the determination of the leadership alone, but from its interaction with society at large, as well as the reactions of both leadership and society to the international environment. The market reform implies “a society-wide transformation involving interdependent changes in state policy and regulation, economic institutions (i.e. markets, property rights, and contracts), and informal norms and social networks that embed economic action.” (Nee & Matthews 1996: 403) Thus, it is important to analyze the on-going contradictions and potential crises in the transformation of China's

political economy which is closely connected to the changing domestic state-society relations.

*Challenges to the party, the nation-state and class relations*

The market reform is not only producing high economic growth but also creating unprecedented contradictions and challenges. First and foremost, it is challenging Communist Party's traditional concept of nation-state as the fundamental unit of political legitimacy, collective identity and economic interactions. The conceptualization of nation-states as social constructions is to be understood as bearing basic shared ideas and meanings in commonly accepted political science theories:

Each nation-state is understood to have the legal, administrative, and political structures for internal governance and for maintaining interstate relations. Nations are accepted as the natural political units for determining economic policy. They set criteria for citizenship and establish and enforce the norms of citizen behavior. They comprise the basis for intercountry economic and social comparisons and they conduct a variety of accommodative and threatening actions toward others.

(Aram 1997: 971)

The market reform has brought institutional and relational changes at national, regional and local levels. The state, while promoting the market reform, is undergoing critical changes after a series processes of reforms, i.e. decollectivization, state enterprises reform, fiscal decentralization, legal and regulatory reform, social security reform. As a result, the role of state institutions and party organizations has also undergone changes in their capacity to fully control the development process. Delinking from the vertical connections with state institutions, regional and local authorities are free to rely on social networks and economic actors within and across communities. The penetration of market forces has made various economic actors, such as entrepreneurs, middlemen, merchants, peddlers, self-employed professionals

and employees in private sectors, less dependent of the state. They can even bypass the state and party organizations to coordinate their economic interests through market mechanisms and social networks, thus reducing the relative power of the state elites.

The marketization process inevitably generates class polarization not only in terms of economic winners and losers but also in terms of political representation. Due to the fact that the transition to market in China opens up alternative sources of benefits and profits which cannot be controlled by the redistributive state, the market begins to reward people by creating divisions. The national labour force has been divided into formal contract and temporary workers, with members of each group receiving differentiated salaries and welfare benefits. The opening up of alternative source of economic rewards simultaneously opens up alternative mobility options to various social groups for political mobilization and representation without entirely relying on the state hierarchical system.

The post-Mao leadership realized that economic marketization would sooner or later challenge their position. The only way to maintain both their political power and economic interests was to quickly transform themselves into a new dominant class that could continue to rule through new class relations. Breaking down the socialist economic system and replacing it with the market would enable them to become not only de-facto owners of the means of production but also managers of the new economy. In this way they could capitalize on their official power while turning their bureaucratic privileges into economic advantages. At the same time they resisted political reforms under the banner of maintaining social stability as such a transformation would challenge their privileged position.



The economic marketization implies the transformation of social/class relations in a number of areas: First, it makes economic calculations the priority of *Guanxi*<sup>8</sup> promoting economic antagonism and precluding solidarity. Second, it absorbs people's attention, energy, capacity and resources, and confines them within a narrow framework of economism. Third, it hides production/class relations and separates them from the market relations so that the exploitation or *unequal* social/class relations in production is ignored while the *equal* relationship in the market is emphasized.

With the increase of private ownership, the economic power of China's new bourgeoisie (middle class) is also growing. The situation is very ironic: the new capitalists today are much stronger and wealthier than they were before the socialist transformation in 1953. To protect their interest, they have raised the demand for political recognition and governing power. Besides creating their own types of associations, a large number of private capitalists have already entered People's Congresses and People's Political Consultative Conferences at different levels (Chen 1999: 450). The change of class relations compositions and will sooner or later affect the existing political system and power structure.

The transition to the market economy is having serious consequences - the tremendous pressures on society to make adjustments may be beyond the system's capacity to absorb and control. China is moving along a contradictory and unstable road: the national economy is based increasingly on market rules while the popular mentality is still used to socialist morality. Constant demand of changes from above has made people unable to follow and to identify with anything except economic profits. The gaps - both material and ideological - have been created and enlarged without specific means to resolve them.

Potential tensions and frustrations are affecting the hearts and minds of the people and society. The market reform appears to be constructing a new society without a solid foundation.

China's economic gains ties to the global economy is inseparable from its increasing dependence on the global market. Beijing maintained that the socialist economy could actually be strengthened by "borrowing a little" from capitalism. But what we are seeing is the opposite: socialism has to yield more and more control to domestic and foreign capitalism. If we look into the "success" of economic growth, we will easily find that Western investors and private entrepreneurs have dominated the most dynamic sectors of the economy. In other words, China's rapid economic growth has been export-driven with the assistance of foreign direct investments and joint-ventures.

#### *Challenges to the cultural values, ideological and social structures*

The impact of the market reform on Chinese society can be seen from the emerging conflicts between traditional political-moral consciousness and socio-economic norms. Historically, moral awareness enjoyed priority in Chinese education because it was believed that there existed certain connections between an external force or determining elements and the "Mandate of Heaven."<sup>9</sup> *Dao De* (in English *ethics* - referring to a natural or ethical cosmic order in total) implies the importance of ethical awareness and spirit in the cosmic order and universal relations. The contemporary "moral education" - political and ideological teaching - in which the accommodation of cultural values into political discourse and societal governance is fading.

The market-oriented development is confusing people's understanding of morality and ethics due to the transformation of a number of relations, such as



class relations and ownership relations. What was considered “wrong” in moral and political terms is not wrong at all in market terms. Despite deep confusion people still want to have faith. This striving explains the explosion of religious beliefs in the 1990s both recognized and illegal. This illustrates an important aspect to China’s risky transition at the turn of this century. Two decades of “pushed” economic growth and frantic materialism have left many people, especially those dispossessed by the market reform and the alienated state workers, with an ideological vacuum, cultural loss and value confusions.

It is estimated that there are more than 100 million population were followers of the five approved religions in China - Buddhism, Taoism, Islam, Catholicism and Protestantism. Besides these main religions, sects, ancestor worship, village-god temples, geomancers, fortune tellers and regular down-home religious activities are blossoming again all over the country. After decades of social and cultural reforms by the Communist regime since 1949, and especially the Cultural Revolution (1966-1976) when all religious activities were banned, these previously considered “spiritual pollutions” are returning rampantly.

The new religious sect called *Falun Gong*<sup>10</sup> - estimates several million followers including overseas worshippers - is posing an unprecedented ideological and spiritual challenges to the post-Deng rulers affecting political and social stability. The danger lies in the fact that *Falun Gong* “offers” spiritual attractions especially to a vast number of people who are the victims of the market reform such as the laid-off workers. It is the most alarming political event since the June 4th political turmoil in 1989.

The regime’s blunt acceptance of the globalization of China’s market, trade and technology is contrasted to its rejection to the penetration of foreign cultures, ideas and values. On the one hand, the regime views the question of civilization

clashes and human rights disputes as conflicts between Western cultural expansion and developing countries' "cultural sovereignty." On the other hand, its worldview is challenged by Western technologies, such as satellite receiver, fax machine, mobile phone and internet. The internet, in particular, has been most threatening to the regime. According to Elizabeth Economy, senior fellow at the Council on Foreign Relations, the China Democracy Party, whose leaders were arrested last year, was found to have used the internet to organize across the country. In her opinion "The thing that was so threatening was certainly not the number of people, but rather that this was inter-provincial, that in over two-thirds of Chinese provinces, the China Democracy Party was able to establish branches. And this was explicitly political in the way that Falun Gong is not. The China Democracy Party still exists. It's still there, and it can emerge at any time because of the Internet." (*The New York Times* August 1, 1999) Accordingly, the picture can be very ominous if independent associations including trade and student unions begin to organize through the Internet.

When Deng Xiaoping started the campaign against "bourgeois liberalism," and in his own words, "when you open the window, flies will come in," he should have realized that he could not just open the domestic market to Western capitalism without political and ideological consequences. The 1989 Tiananmen incident indicated that, although the state authority could discourage students and intellectuals from participating in demonstrations for democracy, it could not stop the penetration of Western multi-level influences: films, rock music, sexually suggestive advertizing and political thinking. In addition to these "flies," the market forces and the opening to the outside world would inevitably give rise to an independent and pluralist society that cannot be fully controlled by the party and state. The so-called Western attempt to advance a "peaceful evolution," which the Chinese leadership firmly against, is actually being

promoted everyday by the market reform making room for Western economic influence, and ideological and cultural penetration.

In a word, the post-Mao regime seems to have accepted economic neoliberalism regarding the role of the market and the relationship between productive forces and production relations, but at the same time it endeavors to preserve its political discourse and identity. The acceptance of the ideology of capitalist market economy is in essence contradictory to China's traditional societal organization and politics. The result is that the Communist Party and the government theorize and engage in a political discourse at the superstructural level based on an ideology of "Chinese characteristics" both in its internal and external relations. However, this ideological construct is constantly challenged by the consequences of adopting a market-oriented development strategy undermining the legitimacy of the political establishment.

#### *Challenges to nationalism, and economic and political sovereignty*

After the founding of the new People's Republic, China under Mao used to define the country's economic strategy in relation to its analysis of the international political economy. Strategically, the central goal of Maoist politics was to overthrow or challenge the unequal hierarchy in the world economic system. The driving force behind this goal was regarded as being rooted in the advance of consciousness and class struggle both at domestic and global levels. The analytical approach focused more on China's position in relation to the Third World. The political orientation was aimed at enlarging and deepening ties with revolutionary Third World states or movement. Domestically, China's external economic activities were subordinated to promoting internal social transformation.

In contrast, the centrality of Beijing's national development policy today is to define China's progress largely in terms of social mobility within the hierarchical order of the world economy, i.e. achieving the production level and approaching the living standard of advanced Western countries. Technology, productivity and trade are increasingly seen as the key factors in changing China's position. The new national development orientation is redirected at extending and deepening external relations with industrial capitalist states (not the developing world) and adjusting internal politics to the demands of global competition. It dramatically departs from the pre-reform Third World policies in which friendship, justice and political support were not subordinate to economic interest.

The current economic policies and development objectives happen to coincide with the new type of expansion of "capitalist imperialism" both in time and space. As Ellen Wood points out, the notion of "new imperialism" denotes clear differences between the traditional and current understanding:

Today, imperialism is not really about the relation between a capitalist and a non-capitalist world. It has more to do with the relations within a global capitalist system. Imperialism today is taking place in the context of what we have been calling the "universalization" of capitalism. It is not now primarily a matter of territorial conquest or direct military or colonial control. .... It is a matter of controlling a whole world economy and global markets, everywhere and all the time. This happens not only through the direct exploitation of cheap labor by transnationals based in advanced capitalist countries but also more indirectly through things like debt and currency manipulation.

(1999: 3)

When China's leadership decided to integrate its economy with global capitalism based on market parameters such as the dismantling of mandatory planning, the opening up of the economy to international competition, the implementation of financial liquidation and bankruptcy, the introduction of

bonds, shares, and stock market for primary and secondary trading, the acceptance of international competition and integration with foreign trade and financial transactions, privatization of state-owned companies, the diversification of ownership forms (private, joint-venture, state, and foreign), the greater flexibility and mobility of labour and population, free prices, the removal of subsidies, closing "inefficient" enterprises and laying off redundant workers, they are actually playing the market rules set up by the new imperialists. In other words, Beijing, as a rule-player not rule-settler, is entering a trap where it will always feel constrained and where compromises seem to be the only way out. This is especially evident in China's difficult relationship with Western powers in a number of political and economic struggles, such as security, trade and human rights issues.

In the political world order, the Kosovo crisis indicated that a new form of armed NATO intervention was undertaken in the name of human rights and moral obligation rather than out of any traditional conception of national interest. NATO's unilateral use of force, deemed as necessary on moral and political grounds, was a significant departure from classic international legality. It jeopardized the international order based on the traditional understanding of the UN Charter - the principle of sovereignty and integrity of states. Humanitarian intervention symbolizes the new age of liberal imperialism and a radical change in international affairs. This is a severe challenge to Beijing's traditional conceptualization of inter-state relations and its understanding of international norms.

While market forces are gradually pulling the whole Chinese nation in various directions, Chinese officials and scholars alike still refuse to acknowledge the pressure on a de-state and de-sovereignty approach to define a number of

concepts, such as “national interests,” “internal affairs,” and “international relations.” “The five principles of peaceful co-existence,”<sup>11</sup> which have long been the pillar of China’s foreign policy and conceptualization of international relations which was quite successful under the Maoist independent and self-reliant development strategy, are being undermined by the post-Cold War American power rhetoric, hegemonic discourse, democracy politics and human rights diplomacy. The current dilemma is that while Beijing is eager to integrate itself with the capitalist world system in which state sovereignty is being eroded and the traditional notion of national interests is under transformation, its foreign policy is still based on an outmoded Westphalian notion of sovereignty (Deng 1998).

One of the most fundamental contradictions of the growth- and export-oriented market approach to modernization lies in the economic policy of “opening to the West” versus deep-rooted Chinese nationalism both at the leadership and societal levels. On the one hand, the century’s unforgettable experiences with Western imperialism and the Japanese invasion have impregnated the Chinese mentality with a consciousness which is ever suspicious of foreign manipulation, intrigue and exploitation. The strong consciousness of the unification and consolidation of the state and society has forged a new basis for Chinese culture created by the Maoist revolution. On the other hand, there is an intense desire to join the “rich-men’s club” of industrial countries including Japan, and to borrow, learn and participate in trade, technology transfer and economic and cultural exchanges. The contradictions between the two conflicting trends reflect two faces of the post-Mao leadership: entering the world capitalist market while preserving the “national identity.”

The difficult resulting from the contradictions between desire and



consciousness indicates the problems of China's internal structure in its interaction with the outside world. The ascendancy of an externally oriented neo-liberalist strata will deepen Chinese dependence and reinforce the hegemony of foreign linked forces, whereas the rise of a nationalist sentiment will create "half-way house" policies which tend to define the terms and conditions of the interactions between internal and external forces. The mixture of "neo-liberalism" and "nationalism" has caused the present ambiguity in ideology and policy planning.

China's remarkable achievement in economic growth were made possible by its growing involvement in the capitalist world system. In other words, its economic growth is inseparable from its increasing dependence on the global market, with some estimates suggesting that more than 40% of its GNP is derived from international trade. In other words, China's rapid economic growth has been driven by exports with the assistance of foreign investments and joint-ventures which have dominated the most dynamic sectors of the economy. The market-driven growth encourages more concessions to induce capital flows and growth in unlimited possibilities of expansion and more structural changes to meet the demand of the overwhelming pursuit of external markets and resources. In addition, the integration with the world market is followed by over-dependence of the productive forces on the fluctuations of the world market. It is still not quite clear how much damage the Asian financial crisis has caused to China, but the pains are easily sensible.

Since 1996, the Chinese political scene was presented with the emergence of a number of assertive books:<sup>12</sup> *China That Can Say No*, *China Should Not Only Say No*, *Behind the Demonization of China*, *Unrestricted War*, etc. This reflects a certain Chinese dissatisfaction in relations with the Western world

especially with the United States and represent a renewal of Chinese nationalism driven by popular sentiment as responses to by a series of US pressures. Although resistance and antagonism toward the United States can be discovered among politicians, intellectuals and students, the Chinese leadership is not very clear as to what is to be expected from the complete integration of China into the capitalist world system. Under the Mao Zedong leadership, nationalism together with socialism was used to mobilize the people to make China into a self-reliant country. Now it seems that nationalism and Confucianism are used to mobilize the people to turn China into a “normal” great power. Is this a recipe for a turbulent future international political climate?

### **Conclusion: rethinking market socialism**

Dismayed by the Soviet Union style of socialism and by the setbacks of Maoist economic strategy, pro-market “socialists” are excited with the phenomenal economic growth under the market system and they are determined to building a mixed economic system (market socialism) with an ambition to combine both socialist principles and market mechanism and with a heavier emphasis on the magic of the free market. However, they are, as Ollman indicates, “... forgetful of whatever they may once have understood of dialectical relationships within a complex system, and reaching for a quick and easy fix to problems that don’t allow all any,” and they “have come to treat the market as a simple mechanism that can be fashioned at will to produce a desired effect.” (1998: 119-120)

By taking a market approach to socialism, the former socialist countries are puzzled by the unsolvable dilemma: the market’s organic ties to the disease of capitalism, such as exploitation, alienation, competition, accumulation and class struggle. The Chinese case is a good example. Due to the organic relations between market relations and capitalism, the market cannot be conceptualized



as a neutral instrument for building socialism. The contradiction lies in the fact that on the one hand, the free market is closely associated with the worst problems of human societies – inequality, unemployment, economic crisis, poverty, corruption, ecological destruction and moral decay; and on the other hand, socialism is supposed to resolve these problems through a different kind of production relations, a different mode of production and a different way of allocation and distribution.

Reforms in economic and welfare structure of the former socialist countries may have been necessary. But it does not justify the return to an ideology and practice of discredited market liberalism. In fact, market liberalism in the West itself has been under constant reforms and the evolution after the Second World War was characterized by a gradual acceptance of a mixed state/private and market/welfare economy. Giving up socialism without establishing a new and more democratic conception of political economy, the on-going market reform is producing fundamental sociopolitical and socioeconomic contradictions making the sustainability of such a development model highly questionable.

When market socialists feel much attracted by the market magic, they tend to forget that market's "invisible hand" has also a "drug effect" – making one addict to and depend on it for survival. China today seems to be in a riding-tiger dilemma: it has to continue to rely on and expand the market as the only way to solve economic and social problems. Eventually this course will determine the expected consequence: the fading of Chinese socialism, the dissolution of the state, the returning to class society and the individualization of the people.

Most of the former socialist states have generally ceased to believe in the possibility of building a non-market economy. What is at odd today is not the

kind of reforms they are implementing, but the ideological belief that a completely uncontrolled market should be left to its own device to create social harmony through the general pursuit of self-interest and allocation of resources. They seem to firmly believe that the market can cause wealth to be created in the most efficient manner possible, which, as a result, will raise living standards and increase economic opportunities. However, what we have seen in Russia and other countries is the results of an imposed market dogma as defective as what was attempted during socialist construction. If their mistakes in constructing socialism are viewed as tragic, the consequences of swimming in the sea of market capitalism must also be considered carefully. Therefore, critical inquiries must be given a chance to question the concepts of the prevailing market discourses.

#### Notes

<sup>1</sup> The word "modernization" is mainly based on the Chinese usages, such as "four modernizations," "realization of modernization," etc. Its core notion actually refers to *industrialization*. Here, modernization and industrialization are interchangeable.

<sup>2</sup> Despite of Germany's present democratic social-political system, the approach of its take-off in economic development before the World War II belonged to the second category - authoritarian capitalism.

<sup>3</sup> The same explanation can be referred to Japan, see note 2.

<sup>4</sup> The "second revolution" refers to the new strategy based on market mechanism to pursuit the goal of industrialization/modernization. It is contrasted to the "first revolution" which attempted to take a revolutionary socialist development strategy, i.e. state-led, public ownership, planned allocation, etc.

<sup>5</sup> Fukuyama is said to have retreated from this viewpoint later.

<sup>6</sup> In this paper the concept of the market does not mean an exchange utility through which pure economic transactions take place. The market as embedded with power relations and societal norms was institutionalized after the Industrial Revolution.

<sup>7</sup> It is estimated that by the end of this century or early next century, China will have a labour surplus of 200 million. Many are migrant drifters from China's remote and poor areas who sweep back and forth across the country in search of jobs. This unemployed mass consists of

impoverished peasants, refugees from areas of natural disasters, surplus labourers as a result of the increasingly mechanized agriculture, as well as workers laid off from bankrupt township enterprises or from privatized public enterprises.

<sup>8</sup> *Guanxi* (in Chinese) means "relations" or "relationships" or "friendship." It implies that in dealing with any social, business and personal relations, the "human" (fx. friendship) aspects of these relations must be placed higher than economic calculations.

<sup>9</sup> It implies the rulers of a state have the responsibility for the welfare of their people. Heaven gives mandates to certain rulers or dynasties to remain in power. However, if a dynasty or ruler ceases to rule justly or wisely and begins to rule only with its own self-interests at heart, then Heaven removes the mandate from that ruler or mandate and passes it on to another family. It entails high moral standard and ethic discipline.

<sup>10</sup> Its distinguishing activity is collective meditation. It propagates the notion that Buddhist-style concentration can cultivate "supernormal" power. Its founder, Li Hongzhi, who was a former clerk in China, now lives in New York.

<sup>11</sup> Enunciated in the 1950s the five principles stands for "mutual respect for territorial integrity and sovereignty; mutual non-aggression; mutual non-interference in internal affairs; equality and mutual benefit; and peaceful co-existence."

<sup>12</sup> The regime seems to have conflicting feeling about these books. On the one hand, they could intensify Chinese nationalism which can be used to resist Western pressure on a number of issues. On the other hand, extreme nationalism could damage China's economic relations with advanced industrial countries.

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